

## WHAT IS BANKRUPTCY?

The bankruptcy laws are designed to deal with financial failure. The dual goals of bankruptcy for the individual debtor are to offer a financial fresh start for those honest yet unfortunate debtors who have experienced financial loss as a result of events outside their control and to assemble and liquidate the debtor's assets for distribution to creditors.

Providing a fresh start preserves the incentive for individual debtors to be economically productive by relieving them from the burden of debts they cannot pay.

## HOW WILL DECLARING BANKRUPTCY AFFECT MY FUTURE CREDIT?

When a person declares bankruptcy, that fact remains on their credit record for up to 10 years. Because of this, obtaining loans for a home, car, a child's education, or a business venture may be very difficult. Not only will that person's ability to get a large loan be hindered, but your day-to-day living standards may also be affected by not being able to use credit for the purchase of necessity items like a washer and dryer or refrigerator.

## WHEN IS BANKRUPTCY NECESSARY?

Because of its legal and financial consequences, consider bankruptcy only in extreme situations, after all other attempts to work things out have failed. Bankruptcy is not meant to be an easy way out for people who could manage their debts by other means. Instead, it is a solution for people in financial distress who really need a

fresh start. In considering whether to take this step, first seek competent financial counseling and then legal advice.

### There are two kinds of personal bankruptcy:

**Chapter 13 and Chapter 7.** Each must be filed in federal court. The current filing fee is \$160. Attorney fees are additional and can vary widely. The consequences of bankruptcy are significant and require careful consideration.

**Chapter 13**, also known as a reorganization, allows you to keep property, such as a mortgaged house or car, that you otherwise might lose. Reorganization may allow you to pay off a default during a period of three to five years, rather than surrender any property.

**Chapter 7**, known as a straight bankruptcy, involves liquidating all assets that are not exempt in Indiana. Exempt property may include work-related tools and basic household furnishings. Some property may be sold by a court-appointed official or turned over to creditors. You can file for Chapter 7 only once every six years. Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities.

Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary among states. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

## WHY ARE MORE PEOPLE DECLARING BANKRUPTCY NOW THAN YEARS AGO?

A steady increase in bankruptcies began in 1980, largely as a result of the Bankruptcy Reform Act of 1978. This was the first major revision to bankruptcy laws since 1938. It was introduced to ensure that the debtor had enough property to begin again, making it easier for him or her to resume a normal role in society. While the law was enacted to help people truly in financial distress, there are, unfortunately, people who see bankruptcy as a way to reduce or eliminate their debt burdens.

Subsequent legislation, the 1984 Amendments and the 1994 Bankruptcy Reform Law, have made it more difficult for those abusers to dismiss their debts. Still there are many people who believe that filing bankruptcy will have no adverse affect on their future, when nothing could be further from the truth.

## HOW ARE CREDIT-RESPONSIBLE PERSONS AFFECTED BY BANKRUPTCIES?

Financial services lenders are in the business to make money. When they lose money from people who default on their loans, the lenders have no choice but to try to cover their increased costs. Unfortunately, this often means: increasing credit charges; cutting back on granting credit to people with less than perfect credit histories; tightening credit requirements; and requiring collateral on larger loans.



The Indiana Department of Financial Institutions,  
Division of Consumer Credit has many other credit  
related brochures available, such as:

Answers to Credit Problems  
Applying for Credit  
At Home Shopping Rights  
Buried in Debt  
Car Financing Scams  
Charge Card Fraud  
Choosing A Credit Card  
Co-Signing  
Credit and Divorce  
Credit and Older Consumers  
Deep in Debt?  
Equal Credit Opportunity  
Fair Credit Reporting  
Fair Debt Collection  
Gold Cards  
Hang up on Fraud  
High Rate Mortgages  
Home Equity Credit Lines  
How to Avoid Bankruptcy  
Indiana Uniform Consumer Credit Code  
Look Before you Lease  
Mortgage Loans  
Repossession  
Reverse Mortgage Loans  
Rule of 78s – What is it?  
Scoring for Credit  
Shopping for Credit  
Using Credit Cards  
Variable Rate Credit  
What is a Budget?  
What is the DFI?

Call our toll-free number or write to the address on the  
cover for a copy of any of the brochures listed or for  
further consumer credit information.



DEPARTMENT OF FINANCIAL INSTITUTIONS  
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# Bankruptcy Facts



**Are you buried in debt?**

**Think twice before you consider  
bankruptcy. Here are some facts  
on bankruptcy to help you decide.**

## DEPARTMENT OF FINANCIAL INSTITUTIONS

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